

C8900-1 11/1/82

How Far Will Car Sales Rebound?
The Widening War in Video Games
Creative Accounting at Aetna

\$3.00

November 15, 1982

FORTUNE



STYMIED BY THE DEFICIT

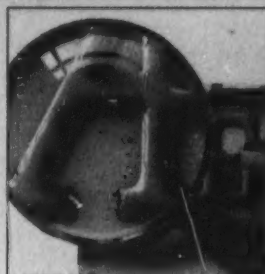
BEST AVAILABLE COPY



FORTUNE



Ronald Reagan is staring at annual budget deficits that are approaching \$200 billion—and paralyzing policy. The cover illustration is by Bruce Stark; an analysis of Reagan's dilemma is on page 50.



54 Aetna



69 Autos



90 Jackson

ACKNOWLEDGMENTS

4—Donna Ferrato. 11—Robert Phillips. 25—Charles Harbutt—Archives. 41,42—Chartmakers Inc. 45,48—Michael McGinn. 53—Illustration by Bruce Stark. 56—William Reduto. 60—UPI. 62—Wide World. 71,74,78—Charts, Jim Cavanagh; illustrations, Richard Newton. 96—William Reduto. 117—Scott MacNeill. 132—Eliot Bergman. 135—Thomas Iannaccone—WWD. 143—Chart, Patricia Byrne; illustration, Anders Wenngren.

FORTUNE (ISSN 0016-8259), November 15, 1982, Vol. 106, No. 10. Issued biweekly by Time Inc., 3435 Wilshire Blvd., Los Angeles, Cal. 90010. Second-class postage paid at Los Angeles, Cal., and at additional mailing offices. Subscriptions: U.S., U.S. possessions: one year \$36; Canada: one year \$46; elsewhere: one year \$42 to \$70. Single copy \$3. Address all subscriptions and correspondence concerning them to FORTUNE, 541 North Fairbanks Court, Chicago, Ill. 60611. Principal offices: Time & Life Building, Rockefeller Center, New York, N.Y. 10020. Address correspondence concerning editorial material to FORTUNE, Time & Life Building, Rockefeller Center, New York, N.Y. 10020. J. Richard Munro, President, J. Winston Fowlkes, Treasurer, Charles B. Bear, Secretary. Authorized as second-class mail by the Post Office Department, Ottawa, Canada, and for payment of postage in cash: Mexico: Autorizado como correspondencia de segunda clase—registro DGC-Num 051 0981, características 226251415, por la dirección general de correos de México. Responsable en México para efectos postales: Carlos Ruz Pilego, Leibnitz 13, México D.F. 11590. Member, Audit Bureau of Circulation. POSTMASTER: Send address changes to FORTUNE, Time & Life Building, 541 North Fairbanks Court, Chicago, Ill. 60611. © 1982 Time Inc. All rights reserved. Reproduction in whole or in part without permission is prohibited. FORTUNE is a registered mark of Time Incorporated.

Departments

4 THE EDITOR'S DESK

7 IN THE NEWS

Standard of Ohio bets big on Arctic oil in a soft market, bankrupt **Braniff** offers **Pacific Southwest Airlines** a Texas connection, a three-way succession struggle at **Esmark**, **American Satellite**'s profits head for the heavens, **Kaiser Aluminum**'s distress sale, **Metropolitan Life** gets set to sell mutual funds, **Avnet** thrives during Silicon Valley's slump—and more

25 LETTERS TO FORTUNE

On Boeing's beauties, Bendix's batties, hotel extras, taxman Dole, zero coupons, and other matters

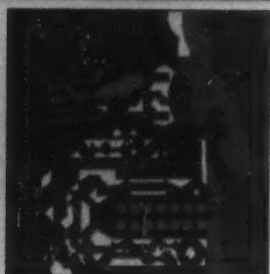
41 FORTUNE FORECAST

Consumers are spending the tax cut
The worst of the inventory drag is over

November 15, 1982



104 Atlanta



114 Games

45 KEEPING UP

On the trail of the Dow, Reverse
McCarthyism, the price of postal workers,
and other matters

by Daniel Seligman

143 PERSONAL INVESTING

Money market funds battle a new
competitor

by Lisa Miller Mesdag

149 ON THE ROAD

U.S. hotels with Japanese accents

by Jeremy Main

165 BOOKS AND IDEAS

Beyond welfare reform

by Daniel Seligman

177 OFFICE HOURS

The executive assistant

by Walter Kiechel III

50 THE ECONOMY Stymied by the Deficit by A. F. Ehrbar

Red ink has paralyzed Reagan's policymakers. Defense spending—rising
even faster than advertised—is a big part of the problem.

54 INSURANCE Behind the Profits Glow at Aetna by Carol J. Loomis

Challenging SEC rules, the insurance giant is counting possible future tax
benefits as current earnings.

60 FOLLOW-UP John De Lorean's Long Downhill Ride by Ann M. Morrison

His cocaine bust was only the latest episode in a series of shady deals.

69 AUTOS How Far Will Car Sales Rebound? by Vivian Brownstein

Despite recession, oil shocks, and four years of dismal sales, the outlook
is good, but not as good as Detroit hopes.

90 BOYCOTTS PUSH Collides with Busch by Irwin Ross

Jesse Jackson's campaign to impose minority quotas on businesses was
doing well until he met the proud brewer of Budweiser.

104 PICTURE PORTFOLIO Coping with the Crowds at Atlanta's New Airport

It takes an army of everything from cooks to mechanics to handle 37.5
million people passing annually through the most modern U.S. terminal.

114 VIDEO GAMES Why the Craze Won't Quit by Peter Nulty

As technology evolves, ever more enticing games will enter the home—
though some of today's makers may get zapped.

125 Cashing In on the Cartridge Trade by Andrew C. Brown

Nimble newcomers, FORTUNE 500 outfits, and a merchant of the risqué
have learned the alluring arithmetic of video game programming.

130 ENTREPRENEURS Maurice Tempelsman's African Connections by Louis Kraar

Having good friends in high places in Africa helps this New York-based
diamond trader prosper.



Jesse Jackson finds a rare moment of repose in PUSH's Chicago meeting hall, formerly a synagogue.

BOYCOTTS

PUSH Collides with Busch

by IRWIN ROSS

To listen to Jesse Jackson, the flamboyant black preacher who has become a scourge to American business, is to enter a world of oddly distorted contours and imagery. In his view, "Black America is an underdeveloped nation *within* a developed nation." He sees his brethren as exploited by the "colonialism" of white corporate America, run by an "oppressive ruling caste" that denies the black nation "its right to self-determination." In full rhetorical flood, Jackson has even declared that

"we are under military occupation—by military forces that are alien to the interests of our community." He means white police departments.

Unlike the black power extremists of the 1960s whose words were similar, Jackson is not calling for a rebellion to overturn the system. Instead he wants black people to share in its rewards. He seeks "trade agreements" from corporations that sell to black consumers. In exchange for their patronage, says Jackson,

the companies must employ more blacks at all levels and sign up more black franchisees, wholesalers, and vendors, place more deposits in black banks, and retain more black lawyers, ad agencies, and insurance companies.

Companies that refuse to sign face the threat of a boycott. Heublein and Seven-Up, a subsidiary of Philip Morris, have negotiated trade agreements with the self-appointed but very popular ambassador from the black community, and

After some easy victories elsewhere, Jesse Jackson has apparently met his match in the brewer of Budweiser.

Coca-Cola too has acknowledged him, although it did so somewhat reluctantly.

But this past summer Jackson ran into a stone wall. He asked Anheuser-Busch to sign an agreement, and the nation's largest brewery refused. The company, which had already started to expand opportunities for blacks on its own several years ago, saw no reason to make a compact with him. Jackson came to believe that the company was trying to discredit him. Emboldened by a U.S. Supreme Court decision over the summer that clearly makes boycotts legal, in early September he announced a boycott. "Bud is a dud," he proclaimed and urged black store and tavern owners not to sell Budweiser, Michelob, Busch, Natural Light, and the four other Anheuser-Busch beers.

Spasm of modesty

The company insists that the campaign has had no effect on sales. Jackson says it is slowly gathering support. "Time is on our side," he argues. "After the first month of the Montgomery bus boycott in the mid-1950s, the bus company said the boycott had no effect. But they couldn't say that after a year." Moreover, Jackson's continued verbal assaults—in speeches and on radio and television interviews—pose a long-term danger to Anheuser-Busch. If the notion, however unfair, gains currency that the company is bigoted, that stain could remain long after the present confrontation is forgotten.

The vehicle for Jackson's campaign is Operation PUSH, an acronym for what was at first a typical piece of Jacksonian hyperbole—People United to Save Humanity. Four years ago, in a spasm of modesty, the board of directors modified the name to People United to *Serve* Humanity. Although it has several luminaries as board members, including the chairman, Mayor Richard Hatcher of Gary, Indiana, the organization is the enlarged shadow of Jackson, its national president. He oversees a Chicago staff of about 45 and a Washington outpost of half a dozen, operating on an annual budget of \$1.5 mil-

Research associate: Jaclyn Fierman

lion, according to Jackson. PUSH does not have any financial statements for inspection. On the other hand, there is nothing to suggest that Jackson has profited personally from PUSH. He draws a middling salary of \$39,000 a year and earns a few thousand more from lectures. With his wife and five children he lives in a house on Chicago's South Side that he bought 12 years ago for \$42,000. The organization is financed by gifts from black businessmen, contributions by churchgoers, and the proceeds from concerts, radio appeals, and house parties; white business firms, seeking to ingratiate themselves with the black community, also contribute.

The troops who go door to door and pass out leaflets for PUSH's campaigns are mobilized mostly by the churches, still the most important institution in the black community. Much of Jackson's strength comes from his ability to inspire other black ministers to follow him, even to the point of imitating his rhetoric. Jackson says he can count for support on churches in about 60 cities; some of his detractors in the black community claim that number is inflated.

Jackson grew up in a deeply religious family in Greenville, South Carolina, where his father supervised janitors in the post office. At North Carolina A&T he played quarterback on the football team and narrowly opted for the ministry over a legal career. He has been a civil rights activist since his youth and in 1965 as a young seminarian he joined Martin Luther King's Southern Christian Leadership Conference. A year later King put him in charge of Operation Breadbasket, SCLC's economic arm, and within a few years Jackson's oratory and organizational skills won him an enthusiastic following. Jackson pressured retail chains in Chicago to stock products made by black manufacturers, to use black service companies, and to deposit money in black banks. Companies that resisted were picketed. But in 1971 Jackson had a falling out with SCLC, which felt he was growing too independent and suspended him for 60 days. He promptly quit and founded PUSH.

SCLC still campaigns for black economic opportunity and has a drive that parallels Jackson's. It has come to an understanding with Food Giant Inc., a chain of 91 supermarkets in Alabama and Georgia, to hire more black store managers, promote more blacks at all levels, and use more black suppliers. It is now trying to negotiate a comparable arrangement with the mammoth Winn-Dixie chain, which has 1,228 stores. Similarly, the National Association for the Advancement of Colored People has been prodding the movie industry to employ more blacks both in front of and behind the camera; it has an agreement with Walt Disney Productions and says it is close to an understanding with at least one other major studio.

Boycott the tube

But it is Jackson who has commanded public attention, largely because of his style. Now 41, he is a dramatic platform presence, tall and athletically built with an erect bearing and a rousing voice.

In recent years Jackson has emerged as "the best-known black leader in America," in the words of Benjamin L. Hooks, the executive director of the NAACP. "There's nobody who approaches him. And if I say that, you can believe it's true. Because ego would demand that I say it about myself." Jackson's ascendancy is partly the result of his oratorical skills, his well-publicized exploits in Chicago, and the media attention that he received in the late 1970s for his "PUSH-Excel" program, in the course of which he barnstormed high schools around the country to motivate youngsters. Among other things he persuaded many to pledge they would give up two hours of television a night for homework.

Jackson's preeminence also reflects the shortage of effective competition. Hooks, 57, a lawyer and former FCC commissioner, is intelligent and deliberate, but lacks Jackson's ability to dramatize issues or himself; he is not necessarily recognized on the street, as Jackson is. John Jacob, president of the National Urban League, has been in a top post for less than a year, too short a period to have made an impres-



To publicize Jackson's boycott of Anheuser-Busch, the owner of a liquor store on Chicago's South Side was delighted to donate a few cases of Bud for sidewalk disposal. The crowd seemed to enjoy dumping it as much as drinking it.

sion. He took over from Vernon Jordan, now practicing law in Washington. Jacob exudes quiet competence but lacks Jordan's incandescence. Reverend Joseph Lowery, who heads SCLC, is well regarded within the civil rights movement but little known outside it. SCLC has never recaptured the national prominence it had under King.

The present drive to exact concessions from business results largely from blacks' frustration with the Reagan Administration, which has reduced funding levels for the social programs favored by black groups. PUSH-Excel no longer receives federal subsidies, which amounted to \$4.5 million from 1978 through 1981.

Investment's novel meaning

Even in the midst of a recession, black leaders consider the private sector more promising than government. What Jackson wants from business, he says, borrowing a Third World phrase, is "trade not aid." He describes the goal of the current campaign variously as "proportional representation," "fair share," or "parity." For

example, Kentucky Fried Chicken, a subsidiary of Heublein, sells 20% of its products to blacks. Therefore, in Jackson's view, blacks ought to constitute 20% of its franchisees, 20% of its suppliers, 20% of its lawyers, 20% of its employees in all major categories; and 20% of its ad budget should be placed in the black media.

For all his sloganeering, Jackson is a pragmatist who realizes that he cannot attain such vaulting goals all at once. He is willing to settle for less initially. But he is inflexible about the basic goal—a flowback in "trade" to blacks proportional to "our investment." He gives the term investment a novel meaning, making it a synonym for consumer spending.

However preposterous the notion of ethnic quotas governing all aspects of corporate life, few would dispute that blacks are today meagerly represented in many business pursuits and should participate in greater numbers. The Heublein agreement, although far short of parity, ought to help blacks do that. Over five years the Heublein covenant provides more than \$180 million in economic benefits to the black community. Among the components: \$75 million in purchases from black vendors, \$60 million in loans from black banks, \$25 million in advertising placed with black agencies. Those numbers represent substantial increases from the levels

prevailing before the covenant was signed last March, although the numbers are relatively small compared with Heublein's total budget. At its current rate of expenditure, Heublein will spend a total of \$3.4 billion for goods and services over the next five years.

Heublein has also pledged to create a \$10-million fund to provide lease guarantees enabling black merchants to open 24 Kentucky Fried Chicken stores over the next three years. The company will also offer 88 additional KFC franchises to blacks qualified to become owner-operators. By the most recent count only 14 of 4,421 Kentucky Fried Chicken stores were owned by blacks.

Justice and market share

Heublein went along with Jackson not only in the interest of justice but also because it considered a covenant a good marketing device to attract more black customers. Says Chairman Hicks Waldron: "When you see a black go into a chicken store, you see on average a person who will eat twice as much chicken as a white person. We sell a high percentage of Smirnoff to blacks as well. Blacks are also good consumers of Harveys Bristol Cream Sherry." Heublein was eager to increase its commitment in all areas of interest to blacks; it was also eager to publicize its

continued

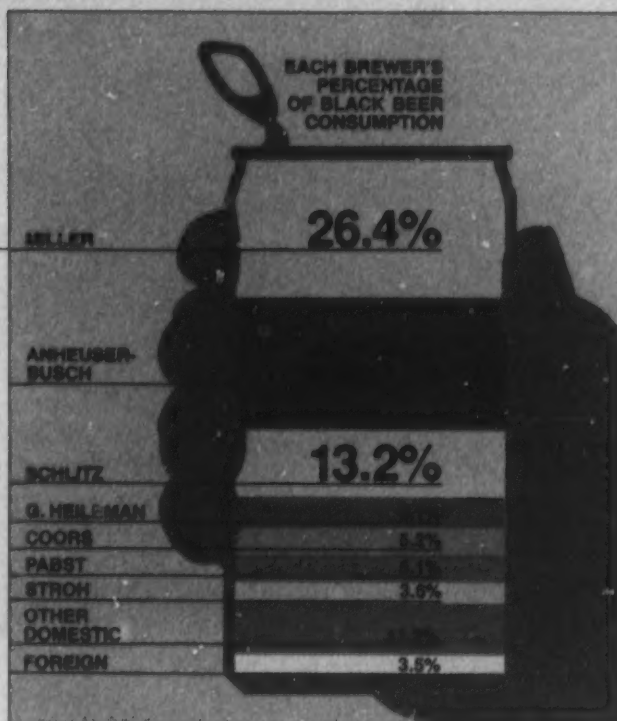
good works in the black media. Cooperation with Jackson was "good business," says Waldron, who jokes, "We would practically kill for one point of market share."

Seven-Up signed an agreement for much the same reason as Heublein. Ever since the company was bought by Philip Morris four years ago, it has been eager to expand its appeal to blacks. Seven-Up sees its covenant with PUSH—a \$61-million package over five years—"as a marketing opportunity," according to Guy L. Smith IV, vice president for corporate affairs. Setting blacks up as wholesalers is "a way for us to be socially responsible and at the same time sell soft drinks."

Coca-Cola did not welcome Jackson's initiative when it came in late 1980, but agreed nonetheless to talk to him. The conversations dragged on amiably for months, but after a series of misunderstandings, Jackson suddenly announced at the PUSH convention in Chicago a "withdrawal of enthusiasm" for Coke's drinks. Jackson used that euphemism in place of boycott because boycotts were still under a legal cloud. The slogan of the day was direct enough, however: "Don't choke on Coke." Two weeks later the parties met in Washington and produced an agreement.

Busch's pride

It was presented with considerable fanfare at a press conference in Atlanta in August 1981, with Jackson, Coca-Cola President Donald R. Keough, and several black luminaries on hand. Oddly, there was no signed document, as in the case of Heublein and Seven-Up, but the omission was not publicized and the occasion was widely regarded as a triumph for Jackson. Coca-Cola sustained a spate of criticism for caving in supinely to PUSH. The company argues, however, that the boycott had no impact and that its new program was only



What Blacks Mean to Brewers

Although a quarter of the black beer-drinking population buys Anheuser-Busch's products, those customers constitute only about 10% of the company's total sales. The black consumer is more important to Miller, which sells nearly 15% of its beer to blacks, and to Schlitz, about 20%.

a continuation of programs under way for some time. Since then it has increased the number of black "fountain wholesalers"—the merchants who supply the beverage syrup to retailers—from two to 26 and increased its billings with black ad agencies.

Anheuser-Busch seemed a likely signatory to a Jackson trade agreement. Only Miller has a larger following among blacks who drink beer (see chart), and Jackson had signed an agreement with Miller and Schlitz almost a decade earlier. What he hadn't counted on was the St. Louis brewer's justifiable pride in its own program. Black consumers make up only about 10% of Anheuser-Busch's total market. Some 18% of its 14,000 employees are minority members—a category that includes Hispanics as well as blacks—with the percentages of officers and managers a respectable 9.6%; professionals, 7.79%; and technicians, 17.5%. Its deposits and lines of credit at minority banks total \$10 million. It buys \$18 million of goods and services a year from minority suppliers and places \$7 million of advertising in minority media.

Those figures compare favorably with the goals of the companies with which PUSH has covenants.

It also has two black board members, Wayman F. Smith III, a vice president whose principal responsibility is minority affairs, and an outsider, Sybil Mobley, dean of the School of Business and Industry at Florida A&M University. One area in which minority participation has been low is in the number of franchisees who distribute Anheuser-Busch beer: only one black and three Hispanics out of nearly 950. So the company plans to spend \$5 million to provide loans and loan guarantees for black entrepreneurs who want to buy distributorships.

Anheuser-Busch refused to be PUSHed. Chairman August Busch III declined to meet with Jackson, delegating Wayman Smith to talk to him. Jackson and Smith met several times. As far as Smith was concerned, the company already had an excellent program and saw no reason "to fit it into Jesse's format." Jackson was displeased because Smith would not give him a breakdown that distinguished between the number of blacks in some parts of the program and the number of Hispanics. Smith says he let Jackson look at the data, but not keep copies. Jackson, who regards easy access to the white leadership of a company as crucial, also resented the fact that he could not talk directly to Busch. Last May a meeting between Busch and Jackson was finally arranged in Smith's office. It lasted half an hour, according to Smith's account; ten or 15 minutes, according to Jackson's. Jackson calls it "not a meeting" but "a courtesy call—like an audience with the Pope."

Despite the quarrel with Jackson, Smith attended the PUSH convention in July and delivered a speech. Jackson insists that the speech had not been scheduled.

continued

August A. Busch III, 45, the company's chief executive, believes that boycotts are sometimes justified, but not against a company that gives as many opportunities to blacks as Anheuser-Busch does.

uled and that Smith expanded a two-minute greeting at a luncheon into a full-blown address. Smith disputes Jackson, pointing out that his company subsidized the lunch to the tune of \$5,000 and that there was a firm understanding that he would speak at length. Jackson later returned the \$5,000.

An offending couplet

Tempers might have cooled if it had not been for editorials in black newspapers in St. Louis attacking Jackson on a separate matter. In August Jackson had appeared before a group of black businessmen in St. Louis and promoted a PUSH subsidiary called the International Trade Bureau, an organization of black companies that would like to do business with, among others, the white corporations that have signed compacts with PUSH. Members pay a \$500 admission fee. "If you want to

Jim Woodruff, president of the National Association of Minority Automobile Dealers, leads a discussion at PUSH headquarters on the special problems of black car dealers, as part of a two-day conference on blacks in the car business. Fewer than 100 of the 25,200 auto dealers in the U.S. are black.

play, you have to pay," Jackson told the group. The couplet, a classic Jacksonian flourish, offended some in the audience. An editorial in the *Sentinel*, a black weekly, was particularly sharp in accusing Jackson of being "self-serving and defrauding the black community." Jackson filed a \$3-million libel suit against the *Sentinel*. He does not deny making the remark, but claims it was misinterpreted, that he was merely suggesting that a good cause had to be supported if it was to succeed.

Soon afterward Jackson concluded that the editorial attack had been "organized and orchestrated" by Anheuser-Busch. He had no evidence, only a flimsy suspicion: the *St. Louis Post-Dispatch* had been tipped off that the editorials were about to appear and reprints were sent around the country. Somebody was out to embarrass him, Jackson reasoned. Anheuser-Busch seemed the likely instigator. The company denies the charge.

Jackson angrily decided that his integrity and that of PUSH were at stake. He called for a boycott. In St. Louis it has had negligible effect. The company has considerable support among blacks because of both its employment record and its local



benefactions. "They've been fantastic corporate citizens," says William Douthitt, president of the St. Louis Urban League, which is emphatically not supporting PUSH in this fight.

Search for a compromise

The boycott has been slow in getting under way elsewhere. According to PUSH, its activists in Washington, Chicago, and seven other cities have been touring stores in black neighborhoods to talk Anheuser-Busch products off the shelves. Some store owners have complied, though not in all nine cities. Some students on black campuses are supporting the boycott as well.

The two sides have started to talk to one another again and may work out a compromise. If the fight goes on for just a short time, Jackson is not likely to hurt Anheuser-Busch much. Many local boycotts have succeeded over the years, for it is relatively easy to organize a single community against injustice. The Montgomery bus boycott, protesting the segregation that forced black people to the back of the bus, is a good example. A national boycott, however, is much harder to sustain, especially when the cause is dubious.

But there is a danger for Anheuser-Busch in the longer term. If the company gets into a protracted battle with Jesse Jackson, given his ability to command public attention, sooner or later not only the black community but much of the white community as well may be left with the vague but lingering impression that Anheuser-Busch is somehow unfair. Jackson too runs a serious risk. If the company sits him out and is perceived as having been unjustly attacked, the threat of a Jackson boycott will lose much of its potency. So may Jackson's reputation. 